

## 4 FAM 040 MANAGEMENT CONTROLS

*(CT:FIN-366; 10-13-2004)*  
*(Office of Origin:RM/FPRA/FPMC)*

### 4 FAM 041 GENERAL STATEMENT

*(CT:FIN-366; 10-13-2004)*

- a. *Management controls are a means of managing risk associated with Federal programs and operations. The Department is required to incorporate management controls in all of its programs and functions. 4 FAM 040 provides general guidance pertaining to financial management. 2 FAM 020 explains the responsibilities associated with the evaluation and improvement process of the Department's system of management controls. However, policies on management controls are not limited to these two sections. Management controls dealing with a specific program or functional area (i.e. payroll, information systems, security) are located in that particular part of the FAM/FAH.*
- b. *As required by 31 U.S.C. 3512, the head of each executive agency must establish and maintain systems of accounting and management controls that provide:*
  - (1) complete disclosure of the financial results of the agency's *activities*;
  - (2) *reliable and timely* financial information the agency needs for management purposes;
  - (3) effective control over, and accountability for, assets for which the agency is responsible, *including* internal audit *(both the bureau/entity reviews and OIG audits)*;
  - (4) reliable accounting results that will be the basis for preparing and supporting the budget requests of the agency, *controlling* the execution of the agency budget *and providing financial information that the President requires; and*
  - (5) suitable integration of the accounting system with the central accounting and reporting responsibilities of the Secretary of the Treasury.

- c. The accounting system *must* incorporate a comprehensive system of management controls characterized by:
  - (1) organizational plans which provide appropriate *separation* of functional responsibilities;
  - (2) authorization and recording procedures adequate to provide reasonable control over assets, liabilities, revenues, and expenses;
  - (3) sound practices *incorporated within the* performance of duties and functions of organizational components; and
  - (4) assignment of responsibilities to personnel commensurate with their qualifications.
- d. The Federal Managers' Financial Integrity Act of 1982, Public Law 97-255, *codified at* 31 U.S.C. 3512 requires that internal accounting and administrative controls of each executive agency *must* be established in accordance with standards prescribed by the Comptroller General and must provide reasonable assurances that:
  - (1) obligations and costs are in compliance with applicable law;
  - (2) funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and
  - (3) revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets.

The standards prescribed by the Comptroller General under this paragraph *also include* standards to ensure the prompt resolution of all audit findings (*GAO web site, report number GAO/AIMD 00-21.3.1, Standards for Internal Controls in the Federal Government*).

- e. *The Federal Financial Management Improvement Act (FFMIA) of 1996 requires that agencies develop and maintain financial management systems that substantially comply with Federal accounting standards, Federal financial management system requirements, and the standard general ledger.*

## **4 FAM 042 SEPARATION OF DUTIES**

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The system *of management controls must* incorporate an appropriate *separation* of duties between *authorizing transactions, processing and recording them, reviewing the transactions, maintaining the accounting records and receipts, as well as, using and disposing resources. No individual should control all key aspects of a transaction or event. Particular emphasis should be made, as follows:*

- (1) employees collecting receipts or having custody of cash or negotiable securities *must* not be assigned *to duties of* maintenance or reconciliation of related accounting records;
- (2) employees having custody of property *must* not be responsible for *maintaining or* adjusting related accounting records; and
- (3) personnel certifying or scheduling vouchers for payment *must* not be assigned procurement, receipt, or custodial duties over property or services. *(See also 4 FAH-3 H-061.2.)*

## 4 FAM 043 PERSONAL RESPONSIBILITY

*(CT:FIN-366; 10-13-2004)*

Each employee has a personal responsibility for the proper use and reporting of that individual's own time. Employees are also responsible for the custody and appropriate disposition or use of property or other assets entrusted to their care, and, in some cases, for the administrative review of such *custody, disposition, or use by others. Employees at all levels are expected to be familiar with management control objectives and techniques associated with their assigned duties. Managers are responsible for the establishment, maintenance, continuing evaluation, and monitoring of management controls.*

## 4 FAM 044 ACCOUNTING CONTROLS

*(CT:FIN-366; 10-13-2004)*

A system of general ledger and subsidiary accounts *must* be maintained for assets, liabilities, investments of the Government, revenues, and costs. Accounts *must* be reconciled and differences investigated according to the following schedule:

- (1) *Produce* general ledger trial balances *at least at the end of each monthly accounting period.* Both internal and external reports will be based on the accounting period;

- (2) *Reconcile* subsidiary ledger cost accounts *with the general ledger* control accounts at the close of each accounting period;
- (3) *Reconcile* subsidiary ledgers for property and current asset inventories *to general ledger controls at least at the end of each* fiscal year, and at intervals when physical inventories are taken. *Also, reconcile* subsidiary ledgers for assets, other than property, *current asset inventories, and liabilities to general ledger controls at* the end of each accounting period;
- (4) *Review* documents supporting unliquidated obligations with *financial management and accounting system on a monthly basis* (including the end of each fiscal year). *Critically review obligation balances at the end of each fiscal year to ensure they are still valid and can be supported by documentary evidence as specified in 31 U.S.C. 1501 (34 Comp. Gen 820).* Specific responsibility shall be assigned at the operating level for the preparation of adequate *working* papers and records in a form suitable for audit (*GAO Policy and Procedures Manual for Guidance of Federal Agencies, Title 7, Chapter 4, Subsection 16.3*); and
- (5) Other financial records maintained by management, if considered as subsidiary to the accounting records shall be reviewed and reconciled at least quarterly.

## 4 FAM 045 ADMINISTRATIVE REVIEW

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The system *of management controls must* include administrative review of disbursement transactions sufficient to ensure compliance with laws and regulations governing certification of vouchers and disbursing of Government funds. *Transactions and other significant events should be authorized and executed only by persons acting within their scope of their authority.* Vouchers *must* be *reviewed* consistent with Department requirements (*See 4 FAH-3 H-400*).

## 4 FAM 046 SAFEGUARDING OF RESOURCES

(CT:FIN-366; 10-13-2004)

All funds, property, and other resources for which the Department is responsible will be appropriately safeguarded to prevent misuse, misappropriation, unwarranted waste, deterioration, or destruction. No

assets are to be disposed of, leave the possession of the Department, or be reduced in value without proper authorization. *Access to government resources must be restricted to authorized persons. Accountability must be assigned and maintained and periodic reviews should occur to account for all resources.*

## **4 FAM 047 INTERNAL AUDIT**

*(CT:FIN-366; 10-13-2004)*

*The Office of Inspector General (OIG) is responsible for independent audits of agency programs and operations, which include financial management. OIG's mission is to protect the integrity of the government; improve program efficiency and effectiveness; and prevent and detect fraud, waste, and abuse in Federal agencies. The OIG's independent audits are an integral part of the Department's management controls. The IG Act requires agency managers to follow-up on audit recommendations. Agency managers should use the findings and recommendations made in these independent audit reports to correct problems resulting from inadequate or poorly designed controls and to build appropriate controls into new programs.*

## **4 FAM 048 THROUGH 049 UNASSIGNED**